Revenue Decoupling Information for the DPSC Commissioners

Presented by:
DPSC Staff, the Division of the Public Advocate and Delmarva Power & Light Company

December 2nd, 2010

Agenda

1) Background – Gary Stockbridge

2) Modified Fixed Variable “MFV” Rate Design & Mitigation – Michael Sheehy

3) Settlement, Timeline and Communications – Susan Neidig

Decoupling - What it is, and what it is not

What it is:

- a way to smooth Customer bills irrespective of weather extremes
- a way to recover only the actual cost of delivery service approved by the Commission in a rate case
- a fair mechanism that is designed to mitigate impact to low usage Customers
- a change that aligns the interests of the utility company with those of the Customer and the State
- revenue neutral to the Company

What it is Not:

- a way to guarantee profits to the Company; the Company must still manage its costs
- a way to recover increased costs of service outside of a full rate case
- a mechanism that impacts the supply portion of the bill; dynamic pricing and load control programs are designed to impact supply side costs

Background on Decoupling

- In Delmarva's last electric rate case (2005) Staff recommended that the parties explore alternative delivery rate structures
- In Delmarva's last gas rate case (2006), the Parties agree to participate in a docket to investigate decoupling mechanisms
- Regulation Docket No. 59 opened March 2007
  - On September 16, 2008, the Commission issued Order No. 7420
  - approved the adoption of Staff's recommendations regarding the potential adoption of a modified fixed variable rate design
- On a federal level, in order to be eligible for certain grants, governors must assure the Secretary of Energy that regulatory bodies in their States will seek to conduct proceedings to ensure that the utilities' financial incentives are aligned with supporting Customers energy efficiency.
- Company has filed to implement decoupling in the current electric rate case
- Parties have met in 9 workshops in 2010 to discuss details around a smooth transition and implementation

Issues addressed in the Decoupling Workshops

The main reason for stakeholder workshops was to chart a path for a smooth implementation of decoupling. Specifically, we:

- Reviewed the impacts of the MFV rate design for residential and nonresidential Customers
- Evaluated price cap mechanisms for various Customer classifications
- Looked into seasonal issues related to implementation timing
- Considered the development of the Distribution Demand Contribution (DDC) and data availability for billing system
- Developed and executed settlements for electric and gas rate design
- Reviewed the decoupling update reports to the Commission
- Explored many aspects of implementation planning including communications plan, ongoing rate cases and revenue impacts to DPL
- Evaluated Customer education issues and timing
- Reviewed tariff revisions

Modified Fixed Variable (MFV) Rate Design as a Form of Revenue Decoupling

- The proposed change to the electric distribution rate structure involves modifying the charges for distribution delivery service from a Customer Charge and volumetric, i.e. a kWh energy usage component, to a two-part rate structure, a Customer Charge and a demand-related charge or Distribution Demand Contribution (DDC).
- The new rate structure provides a more economically efficient pricing signal because it reflects the fixed nature of distribution costs. The distribution system is planned, operated and maintained to serve the peak load. The facilities necessary to serve that peak load do not change when usage is reduced and neither do the costs.
- The rate structure establishes an appropriate link between those Customers that cause the peak load and the cost of the facilities to serve that peak. Those Customers that use less during peak load will pay less.
- Until demand data is available from Customer's meters, the proposed demand billing determinant (the DDC for the proposed MFV rate design) is the transmission peak load contribution (Transmission PLC), which is currently calculated on a Customer-specific basis based on Customers' kWh consumption during the peak periods.
- The stability of the new rate structure comes from the use of the PLC for each Customer, which is constant for the entire year and is not susceptible to seasonal fluctuations throughout the year.
- The DDC would be kept fixed between distribution rate cases, on a premise basis, until new distribution rates are approved through future base rate cases.

Customer Impacts and Mitigation Efforts

- **In the current Delmarva Electric Base Rate case, Docket 09-414, we considered how to mitigate the impacts on some Customers as a result of the new rate design.**

- **Three major factors contribute to the Customer bill impact**

  * First, the current Customer Charge does not recover the full cost of Customer service (for example: metering, billing, call center operations, etc).

  * The second is simply overall usage level. On a **percentage** basis, simple math dictates that any increase in fixed charges (e.g. Customer Charge) will affect lower usage Customers more than higher usage Customers.

  * Because Delmarva is a summer peaking utility, the third factor is the level of a Customer's summer usage, compared to their winter usage.

- **Mitigation efforts focused on balancing these factors in order to reduce the bill impact on low usage Customers.**

Results of Mitigation Effort on Residential Customers

No Change to Customer Usage Pattern

	Average Customer		1/2 Average Customer		2 x Average Customer	
	Before	After	Before	After	Before	After
Usage Pattern						
Summer Usage (kWh)	1,021	1,021	511	511	2,042	2,042
Winter Usage (kWh)	746	746	373	373	1,492	1,492
DDC (kW)	2.964	2.964	1.482	1.482	5.927	5.927
Bill Component						
Customer Charge	$ 7.36	$ 12.00	$ 7.36	$ 12.00	$ 7.36	$ 12.00
Delivery Charge						
kWh	$ 19.27		$ 9.64		$ 38.55	
DDC		$ 14.07		$ 7.03		$ 28.14
Supply	$ 96.79	$ 96.79	$ 48.40	$ 48.40	$ 193.59	$ 193.59
Total	$ 123.42	$ 122.86	$ 65.39	$ 67.43	$ 239.49	$ 233.73

Conclusion: Minimal impact to low use Customers. If you use less, you still pay less.
(Based on pre-base case rates)

The Decoupling Settlement for Electric

- DPL shall implement a 2-part Modified Fixed Variable rate design – Customer Charge + Distribution Demand Contribution (DDC) Charge with appropriate recovery within each Customer class
- The DDC will remain fixed until updated in a base rate case
- The Parties will work to coordinate the implementation of gas and electric decoupling
- The Parties will develop a Customer Education Plan

Implementation Timeline

Should the Commission decide to move forward with revenue decoupling:

- **The Parties will work to coordinate the implementation of gas and electric decoupling**

- **Targeted timeline for decoupling implementation**
  - **Electric May 2011**
  - **Gas September 2011**

Customer Education and Communication

- The parties realize the importance of Customer education and the Settlement agreement specifically states that the parties will work together to formulate a Customer education plan

- The timeline of the education plan depends on the timing of implementation that the Commission orders

- Audiences:
  - Customers
  - Legislators
  - Editorial boards
  - Community groups
  - Opinion leaders

- Customer education elements:
  - News releases, bill inserts, article on Website and in Customer newsletter
  - Speakers Bureau presentations, including joint presentations with Staff
  - Radio & print advertising
  - Social media (Twitter & Blog)

Summary

- Changes that have occurred
  - No further mandate or deadline to implement decoupling
  - Availability of energy efficiency and conservation programs not as robust as expected
  - AMI and the availability of more detailed usage information has slowed

- We have worked hard together, through many workshops, for over two years, to design mechanisms to mitigate the impact on Customers during the transition and we all agree that the current design provides the right balance of fairness and rate gradualism.

- Customer education will be critical and the Company plans extensive efforts prior, during and after implementation to educate and inform our Customers.

- Decoupling removes the disincentive for utilities to promote energy efficiency programs that help their Customers use less energy, making them a better partner with their Customers and aligning their interests with State policy.

- Customers still have a significant incentive to reduce energy usage. The supply portion, which is approximately 75% of their bill, can still be directly reduced, and the 25% distribution portion can be reduced over time.

- The Customer Charge is fixed and the same for all residential Customers. The DDC is fixed between rate cases and is based on the amount of the system the Customers uses at peak times.

- Decoupling is revenue neutral to the utility.